



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Required Report - public distribution

Date: 10/22/2002

GAIN Report #KS2055

# **Korea, Republic of**

## **Dairy and Products**

### **Annual**

### **2002**

Approved by:

**Daryl A. Brehm**

**U.S. Embassy, Seoul**

Prepared by:

Young Sook OH

---

#### **Report Highlights:**

**In 2003, it is expected that dairy imports will rise despite surplus fluid milk production as imports of both cheese and NFD. Imports of cheese, which dipped temporarily in 2002, are expected to return to 2001 levels. Meanwhile, imports of whey powder are expected to increase by 10-15 percent.**

---

Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

Seoul ATO [KS2], KS

**SECTION I. SITUATION AND OUTLOOK - SOUTH KOREA**

Korea imports about \$150 million of dairy products annually. Cheese products account for a little over half of all imports, whey products 35%, and concentrated milk/cream 10%.

In 2003, it is expected that dairy imports will increase despite surplus production. Imports of cheese and NFDM, which dipped temporarily in 2002, are expected to return to 2001 levels.

The U.S. currently has a 16% market share by value for all dairy products except ice cream where it is about 70%.

Korea does not import any raw milk and in fact has surplus production, however, limited production facilities and unreliable supplies will continue to encourage imports.

Traditionally, Koreans did not consume dairy products in their diets, but the growing younger generation and preference for western foods is leading to increased consumption.

Korean consumers are very sensitive to food safety issues. Although, they have not been educated about food safety nor do they know much about food safety, they generally depend on the media and trust it in spite of the media's often misleading information on food safety issues. Once a "food scare" rumor gets publicity, that food is affected and its reputation is damaged quickly.

**1. Fluid Milk**

Korean raw milk production is not expected to change significantly in the near future. Current milk production still exceeds demand; however the Korea Dairy Committee continues to support dairy farmers. There is a plan to change the supporting system to control the quantity of raw milk production. The Korean raw milk production is forecast to increase less than 1% in 2003.

In order to reduce the surplus, the KDC induced farmers to slaughter some of the milking cows between April and June in 2002 which resulted in killing of 24,000 head (or 9 percent of the total milking cows). However, milk production still exceeds demand.

Out of total local milk production, 73% was consumed as fluid milk and the remaining was further processed in 2001. Furthermore, drinking milk consumption in Korea for the first half of 2002 decreased by 3-4 percent. It is understood that major reasons for the decrease in the drinking milk consumption are falling birthrate, development of a wide variety of beverages including functional & healthy beverages and a "slim diet" trend among younger generations. The market for costly functional drinking yogurt increased by 6 percent annually during past two years.

**2. Cheese**

Total cheese imports are expected to increase 10% in 2003 due to the lack of domestic production facilities and the increase in consumer demand for cheese products. In 2002, cheese imports dropped,

but this decrease was ascribed to a special television program, "Good Life and Good Diet" which reported on the health benefits of vegetables and fish as opposed to meat and dairy products. In addition, during the time of the World Cup, Korean spending came to a virtual halt as many consumer stayed home to watch the games.

However, the rapid growth in fast food and family style restaurants, especially those serving western foods such as pizza and cheese burgers, are expected to contribute to the increase in demand for a wide variety of cheese products in 2003.

Local cheese production is constrained by the lack of manufacturing facilities. There are no plans to expand the facilities at this time, therefore local production will be unable to keep up with demand requiring an increase in imports. Then, the slight increase in production in 2003 is expected to a return to 2001 levels.

Imports of U.S. cheese are benefitting from the increase consumption of cheese in general; however, there is strong competition from Australia and New Zealand. The average price of imported U.S. cheese (\$3.50/kg) was a dollar higher than its competitors. Despite this difference, U.S. cheese has a good reputation and is likely to increase its market share slightly over to 15% in 2002 based on imports to date.

### **3. Nonfat Dry Milk (NFDM)**

Imports of NFDM are forecast to increase 8% in 2003 because there is a surplus of raw milk production. The retail price of locally manufactured NFDM is only \$2 per kilogram due to the surplus of NFDM these days while the manufacturing cost is \$5.80 per kilogram. Farmers are compensated by KDC so they are not interested in reducing production. However, KDC continues to try to change this support system but in this moment without much success.

There is an import tariff quota of 942 MT for NFDM, within the quota the tariff is 20 percent and out of the quota is 184.8 percent. From January to August, 2002, imports of NFDM were 3,110 MT, a 9% decrease from 2001. However, post believes this drop similar to cheese imports will not be a factor in 2003. The average cost from the EU, Australia and New Zealand was \$1.65 per kilogram based on CIF value.

Local food processors import NFDM for the purpose of reexporting to other countries including Saudi Arabia, Taiwan, China and Bangladesh after having processed it into infant formula. The high tariff of 184.8 percent is reimbursed to importers by Korea Customs Service when they have reexported the processed dairy products made from imported NFDM. Most of NFDM is imported from the EU, Australia and New Zealand. There were no imports from the United States in 2001 nor to date in 2002, importers complain the U.S. price is too high.

Although there is currently a surplus of raw milk leading to NFDM production, the supply of local NFDM is not steady and price competition with imported NFDM. Therefore local food processors are reluctant to use domestic supplies and feel more comfortable importing.

#### **4. Other Dairy Products**

##### **Ice Cream**

Total imports of premium ice cream in Korea are forecasted to continue to increase at about 10-20 percent per year over the next 5 years. Because ice cream imports were \$8.3 million (2,400 MT) in 2001, up 47 percent from \$5.6 million in 2000. During January - August 2002, imports of ice cream increased to \$7 million, up 15 percent from \$6 million during the same period of 2001.

Out of total \$8.3 million (2,400 MT) in 2001, \$7 million (2,000 MT) came from the U.S. with a market share of 85 percent, followed by Switzerland at \$334,000 and by EU at \$850,000.

The Korea ice cream market is dominated by the top four Korean ice cream manufacturing companies which accounted for 90 percent of the whole ice cream market in 2001. Out of the remaining 10 percent, leading premium ice cream company, Baskin Robins (locally produced with imported ingredients) accounted for 5 percent. Other major premium imported brands are Haagen Dazs, Blue Bunny, Dreyers and Dippin Dots. U.S Ben & Jerry ice cream brand launched into the Korean market in October 2002. Overall, the ice cream market did not meet the increasing expectation of the ice cream business sector due to heavy rainfalls in the summer of 2002 and the lack of warm weather.

##### **Whey Powder**

Total whey powder imports are forecasted to increase 10-15 % in 2003 due to the low price of imported whey powder, average cost of \$0.48 per kilogram on the basis of CIF value. There is not enough local facilities to produce the whey powder to meet the demand.

Imports of whey powder was \$14.3 million (25,871MT) in 2001, increased by 16 percent from \$12.3 million (25,764 MT) in 2000. Most of imported whey powder is utilized to produce animal feed, 70 percent of imported whey powder is processed for animal feed. In 2001, \$8.5 million (14,662 MT) was imported from U.S with the market share of 60 percent and \$10.1 million (21,443 MT) came from the U.S. with a market share of 83 percent in 2000. The decreased imports of U.S. whey powder was due to a price competition with competitors in 2001.

#### **SECTION II. STATISTICAL TABLES**

**1. Per Capita Consumption by Products**

(Unit: Kg)

Year/Products	Raw Milk	Fluid Milk	Fermented Milk	Cheese	Butter	Condensed Milk
1985	23.3	18.2	3.6	0.01	0.07	0.06
1990	42.8	31.2	8.2	0.17	0.17	0.08
1995	47.8	34.5	13	0.3	0.06	0.08
1997	52.1	37	14.2	0.5	0.08	0.08
2000	59.7	35.9	11.2	0.9	0.1	0.09
2001	64.3	36.5	11.3	1.1	0.1	0.09

Source: 2002 Korea Livestock Yearbook by Agriculture Fishery &amp; Livestock Newspaper

**2. Korea's Overall Milk Supply & Demand(\*)**

(Unit: 1,000 MT)

Year/ S&D	Supply			Demand	Self Sufficiency
	Production	Import	Total		
1997	1,984	444	2,484	2,451	80.9%
1998	2,027	282	2,309	2,299	88.2%
1999	2,244	456	2,700	2,752	81.5%
2000	2,253	640	2,893	2,807	80.2%
2001	2,340	653	2,992	3,046	76.8%

(\*): All dairy products were converted into the raw milk quantity.

Source: 2002 Korea Livestock Yearbook by Agriculture Fishery &amp; Livestock Newspaper

**3. Major Dairy Products Imports (2000 - 2001)**

(Unit: MT)

Products(HS Code) /Year	2000		2001		% Change	
	U.S.	Total	U.S.	Total	U.S.	Total
Cheese(HS0406)	3,250	30,515	3,728	34,453	15%	13%
NFDM (HS0402-10)	0	3,001	0	5,110	0	70%

Whole Fat DM (HS0402-21)	0	681	0	1,640	0	141%
Mixed Milk (HS0404-90)	929	24,626	918	18,204	-1%	-26%
Butter (HS0405-10)	36	907	19	1,042	-47%	15%
Whey Powder (HS0404-1010)	21,443	25,764	14,662	25,871	-32%	1%

Source: 2002 Korea Livestock Yearbook by Agriculture Fishery & Livestock Newspaper

#### 4. Number of Dairy Cows, Milking Cows, Farms, Dairy Cows per Farm and Profit per Milking Cow in Korea

	1985	1990	1994	1996	1998	1999	2000	2001
Total Number of Dairy Cows (unit: 1000)	390	504	552	551	539	535	544	548
Number of Milking Cows (Unit: 1000)	180	273	280	286	281	306	286	262
Number of Farms (unit: 1000)	44	33	26	21	16	14	13	12.8
Number of Dairy Cows per Farm	8.9	15.1	21.5	26.1	34.4	37.1	40.7	42.7
Profit per Milking Cow	\$153	\$143	\$350	-\$119	\$384	\$858	\$973	\$881

Source: 2001 Dairy Handbook by Ministry of Agriculture & Forestry and Korea Dairy Committee

**PS&D Table: Fluid Milk**

Unit: 1,000 Metric Ton

<b>PSD Table</b>						
<b>Country:</b>	<b>K o r e a , Republic of</b>					
<b>Commodity:</b>	<b>Dairy, Milk, Fluid</b>					
		<b>2001</b>		<b>2002</b>		<b>2003</b>
	Old	New	Old	New	Old	New
<b>Calendar Year Begin</b>		<b>01/2001</b>		<b>01/2002</b>		<b>01/2003</b>
Cows In Milk	286	262	290	263	293	264
Cows Milk Production	2253	2340	2276	2370	2535	2390
Other Milk Production	0	0	0	0	0	0
TOTAL Production	2253	2340	2276	2370	2535	2390
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
<b>TOTAL SUPPLY</b>	2253	<b>2340</b>	2276	<b>2370</b>	2535	<b>2390</b>
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	1697	1637	1800	1660	1901	1673
Factory Use Consum.	556	703	476	710	634	717
Feed Use Dom. Consum.	0	0	0	0	0	0
T O T A L D o m . Consumption	2253	2340	2276	2370	2535	2390
<b>T O T A L DISTRIBUTION</b>	2253	<b>2340</b>	2276	<b>2370</b>	2535	<b>2390</b>
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Cows in Milk: 1,000 head

Source: Ministry of Agriculture &amp; Forestry

**PS & D Table: Cheese**

Unite: Metric Ton

<b>Country:</b>	<b>K o r e a , R e p u b l i c o f</b>					
<b>Commodity:</b>	<b>D a i r y , C h e e s e</b>					
		<b>2001</b>		<b>2002</b>		<b>2003</b>
	Old	New	Old	New	Old	New
<b>Calendar Year Begin</b>		<b>01/2001</b>		<b>01/2002</b>		<b>01/2003</b>
Beginning Stocks	453	2294	2209	3014	2000	2500
Production	14981	20060	16479	18054	18127	20000
Intra EC Imports	0	0	0	0	0	0
Other Imports	30515	34453	38200	31000	47750	34000
TOTAL Imports	30515	34453	38200	31000	47750	34000
<b>TOTAL SUPPLY</b>	45949	<b>56807</b>	56888	<b>52068</b>	67877	<b>56500</b>
Intra EC Exports	0	0	0	0	0	0
Other Exports	706	706	1000	1000	1500	1500
TOTAL Exports	706	706	1000	1000	1500	1500
Human Dom. Consumption	43034	53087	53888	48568	64377	52000
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	43034	53087	53888	48568	64377	52000
TOTAL Use	43740	53793	54888	49568	65877	53500
Ending Stocks	2209	3014	2000	2500	2000	3000
<b>T O T A L DISTRIBUTION</b>	45949	<b>56807</b>	56888	<b>52068</b>	67877	<b>56500</b>
Calendar Yr. Imp. from U.S.	3250	3728	4062	4000	5078	5000
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Source; Ministry of Agriculture &amp; Forestry



**Export Trade Matrix: Cheese**

Unit: Metric Ton

<b>Export Trade Matrix</b>			
<b>Country:</b>	<b>Korea, Republic of</b>	Units:	MT
<b>Commodity:</b>	<b>Dairy, Cheese</b>		
<b>Time period:</b>	<b>CY2001 Jan-August 2002</b>		
<b>Exports for</b>	<b>2001</b>		<b>2002</b>
U.S.	2	U.S.	20
Others		Others	
Japan	695	Japan	333
		Australia	24
<b>Total for Others</b>	<b>695</b>		<b>357</b>
<b>Others not listed</b>	<b>9</b>		<b>8</b>
<b>Grand Total</b>	<b>706</b>		<b>385</b>

Source: Ministry of Agriculture &amp; Forestry

**Import Trade Mextrix: Cheese**

Unit: Metric Ton

<b>Import Trade Matrix</b>			
<b>Country:</b>	<b>K o r e a , Republic of</b>	Units: MT	
<b>Commodity:</b>	<b>Dairy, Cheese</b>		
<b>Time period:</b>	<b>CY2001 Jan - August 2002</b>		
<b>Imports for</b>	<b>2001</b>		<b>2002</b>
U.S.	3728	U.S.	2665
Others		Others	
Australia	14516		8865
New Zealand	12545		7296
EU	2107		1484
Canada	1521		499
<b>Total for Others</b>	<b>30689</b>		<b>18144</b>
<b>Others not listed</b>	<b>36</b>		<b>111</b>
<b>Grand Total</b>	<b>34453</b>		<b>20920</b>

Source: Ministry of Agriculture &amp; Forestry

**PS & D Table: Non Fat Dry Milk (NFDM)**

Unit: Metric Ton

<b>PSD Table</b>						
<b>Country:</b>	<b>K o r e a , Republic of</b>					
<b>Commodity:</b>	<b>Dairy, Milk, Nonfat Dry</b>					
		<b>2001</b>		<b>2002</b>		<b>2003</b>
	Old	New	Old	New	Old	New
<b>Calendar Year Begin</b>		<b>01/2001</b>		<b>01/2002</b>		<b>01/2003</b>
Beginning Stocks	3095	6562	9238	5257	9000	9000
Production	24257	21625	25000	22270	25750	22900
Intra EC Imports	0	0	0	0	0	0
Other Imports	3001	5110	4500	4650	4500	5000
TOTAL Imports	3001	5110	4500	4650	4500	5000
<b>TOTAL SUPPLY</b>	<b>30353</b>	<b>33297</b>	<b>38738</b>	<b>32177</b>	<b>39250</b>	<b>36900</b>
Intra EC Exports	0	0	0	0	0	0
Other Exports	153	14	50	50	100	100
TOTAL Exports	153	14	50	50	100	100
H u m a n D o m . Consumption	20962	28026	29688	23127	31150	28800
Other Use, Losses	0	0	0	0	0	0
T o t a l D o m . Consumption	20962	28026	29688	23127	31150	28800
TOTAL Use	21115	28040	29738	23177	31250	28900
Ending Stocks	9238	5257	9000	9000	8000	8000
<b>T O T A L DISTRIBUTION</b>	<b>30353</b>	<b>33297</b>	<b>38738</b>	<b>32177</b>	<b>39250</b>	<b>36900</b>
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Source: Ministry of Agriculture & Forestry

## Export Trade Matrix: NFD

Unit: Metric Ton

<b>Export Trade Matrix</b>			
<b>Country:</b>	<b>Korea, Republic of</b>	Units: MT	
<b>Commodity:</b>	<b>Dairy, Milk, Nonfat Dry</b>		
<b>Time period:</b>	<b>CY2001 Jan-August 2002</b>		
<b>Exports for</b>	<b>2001</b>		<b>2002</b>
U.S.	0	U.S.	0
Others		Others	
Taiwan	14	Thailand	16
			0
<b>Total for Others</b>	<b>14</b>		<b>16</b>
<b>Others not listed</b>			
<b>Grand Total</b>	<b>14</b>		<b>16</b>

Source: Ministry of Agriculture & Forestry

**Import Trade Matrix: NFD**

Unit: Metric Ton

<b>Import Trade Matrix</b>			
<b>Country:</b>	<b>Korea, Republic of</b>	Units: MT	
<b>Commodity:</b>	<b>Dairy, Milk, Nonfat Dry</b>		
<b>Time period:</b>	<b>CY2001 Jan-August 2002</b>		
<b>Imports for</b>	<b>2001</b>		<b>2002</b>
U.S.	0	U.S.	0
Others		Others	
Australia	1662	Australia	1018
New Zealand	861	New Zealand	652
EU	1382	EU	1346
Poland	396		
India	375		
Russia	145		
<b>Total for Others</b>	<b>4821</b>		<b>3016</b>
<b>Others not listed</b>	<b>289</b>		<b>94</b>
<b>Grand Total</b>	<b>5110</b>		<b>3110</b>

Source: Ministry of Agriculture & Forestry

C:\RPT145784354.WPD